

City of Surprise Construction Contracting Transaction Privilege Tax

WHO MUST PAY THE TAX?

You must have a City of Surprise business license and pay tax if you are in the business of constructing, repairing, improving, moving, wrecking, demolishing, or otherwise altering real property. Construction Contractors include subcontractors, specialty contractors, prime contractors, and any other persons receiving consideration for supervision and/or coordination of a construction project, or any part of a project, for others.

Sales of commercial buildings within 24 months of completion, as well as sales of model or inventory homes and improved lots at any time are taxed as speculative builder income.

WHAT IS THE CITY TAX RATE?

The City's tax rate is 3.7%.

State and County rates are available at:

<http://www.azdor.gov/Business/TransactionPrivilegeTax/TPTRates.aspx>

HOW IS TAX REPORTED?

City Privilege Taxes are reported on the TPT-1 Arizona Transaction Privilege, Use, and Severance Tax Return. The City tax is reported on a line labeled SP-005. If an Arizona Department of Revenue Joint Tax Application, or a Business Account Update Form have been submitted, the TPT-1 will be mailed monthly with all appropriate lines preprinted on the return. Any lines that are not preprinted may be hand written on the next available blank line. TPT-1 returns are due and payable the 20th of the month following the reporting period. TPT-1 returns are available at: <http://www.azdor.gov/Forms/TPT.aspx>.

WHICH CITY IS OWED THE TAX?

Construction contracting tax is due to the city in which the real property under construction or repair is located.

WHAT IS TAXABLE?

A construction contractor is taxable on the gross income derived from construction contracting performed within the City of Surprise. A contractor who furnishes labor only (such as a handyman) is subject to the same provisions as a contractor who furnishes both labor and materials.

A contractor is liable for tax on gross income from construction contracting unless a written declaration taking responsibility for sales tax is obtained from either a construction contractor, or owner-builder declaring that he is improving the property for sale, including the Prime Contractor's Certificate (Form 5005), which is available at

<http://www.azdor.gov/Forms/TPT.aspx>. Income documented in this way is exempt subcontracting income.

EXAMPLES OF TAXABLE CONTRACTING ACTIVITIES INCLUDE (but are not limited to) THE FOLLOWING:

- Construction or demolition of a building
- Road construction
- Land excavation
- Landscaping (installation or removal, but not maintenance)
- Installation of floor covering
- Signs on buildings, poles, etc.
- Home remodeling (including painting, wiring, and wallpapering)
- Construction for government agencies (Federal, State, and Local)
- Plumbing, electrical work and air conditioning
- Construction for schools, churches, and nonprofit organizations

DEDUCTIONS THAT CAN BE TAKEN (when included in the gross income on the front of your tax return):

- State, County and City Tax Collected whether charged separately or included in the sales price
- Bad Debts on which tax was paid on a previous TPT-1 return
- Discounts, Refunds or Returns
- 35% Standard Deduction computed on income after all other deductions
- Exempt subcontracting income (see above)
- Out-of-city contracting

CALCULATING THE TAX

You may choose to charge the tax separately or you may include tax in your price. If you include tax in your price (no separate charge for tax), you may back out the tax in order to compute the amount of tax included in your gross income. Please refer to the Transaction Privilege Tax factoring worksheet to aid in the calculation of the standard 35% deduction and the tax collected deduction, available at:

<http://www.azdor.gov/Business/TransactionPrivilegeTax/TaxFactoring.aspx>

If more tax was collected than was due, the City's portion of excess tax collected must be paid to the City, unless it is refunded to the customer. Please refer to the TPT-1 Tax Instruction Sheet for instructions on how to report excess tax collected or the tax collected deduction.

This is general information only. For complete details, refer to the City of Surprise Model City Tax Code Section 3.14-415.